Annual Report 2005
Financial Statements

# The Law Society of Upper Canada



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# Management Discussion and Analysis

The Law Society of Upper Canada ("the Society") General Fund comprises its unrestricted fund, funds restricted by Convocation and endowment funds held in trust. The Society's annual membership fee is based on the financial requirements of the restricted and unrestricted funds.

The unrestricted fund is the Society's operating fund representing the bulk of its revenues and expenses. The funds restricted by Convocation are the Capital Allocation, Invested in Capital Assets, County Libraries, Repayable Allowance, Endowments, Special Projects and the Working Capital Reserve funds.

#### BALANCE SHEET

Two events have had significant implications for the General Fund balance sheet in 2005. Since late 2004, the Society has been renovating the north wing of Osgoode Hall. This project, completed in February 2006 at a cost of approximately \$9.7 million, has impacted the Fund's cash and investments, capital assets and accounts payable.

The second major event was the listing of the Society's building in Ottawa for sale in the late summer of 2005. The change from the Bar Admission Course to a new licensing process made retention of a building in Ottawa dedicated primarily to the education of candidates for the bar unnecessary. The action of listing the building for sale has resulted in its reclassification on the balance sheet to capital assets held for resale from capital assets.

#### Cash and short-term investments and portfolio investments

Cash and short-term investments have decreased by approximately \$6.3 million from \$22.2 million at the 2004 year-end to \$15.9 million as funding was applied to the north wing renovation. The short-term investments include government backed securities and money market instruments issued by major Canadian Banks.

Portfolio, or long-term investments, increased to \$10.5 million and included equities (20%) and fixed income investments (80%). Fixed income investments comprise a diversified mix of government, provincial and corporate bonds. Equity investments comprise a diversified mix of equities listed on the major U.S. and Canadian stock exchanges. The year-end market value of the portfolio is \$10.4 million.

#### Capital assets

The increase in capital assets from \$18.1 million to \$23 million reflects the ongoing north wing renovation project completed in February 2006. \$7.3 million was capitalized in 2005 for this project.

The Ottawa building, reported as capital assets in 2004, with a carrying value of \$2.1 million, has been reclassified as capital assets held for resale as it has been placed on the market.

#### Current liabilities and deferred revenue

Accounts payable and accrued liabilities have increased by \$1.6 million to \$9.3 million as a result of normal construction holdbacks on the north wing renovation project and provisions for bencher remuneration and litigation matters.

Deferred revenue of \$7.2 million has increased slightly from 2004, predominantly representing 2006 membership fees received in 2005.



#### Unclaimed trust funds

Unclaimed trust funds continue to increase reaching \$1.3 million in 2005, an increase of \$238,000. These are trust monies turned over to the Society by members who are unable to locate or identify the clients to whom the monies are owed. By statute, the Society administers these funds, in perpetuity, with the net income from the funds transferred annually to the Law Foundation of Ontario.

#### STATEMENT OF REVENUES AND EXPENSES

The Society's Unrestricted Fund has generated a surplus of \$367,000 as a result of operations for 2005.

Total revenues for the Unrestricted and Restricted Funds increased by \$920,000 and net expenses increased by \$2.7 million from 2004. These trends were in line with the 2005 budget.

#### Revenues

#### Membership fees

Membership fees revenue for 2005 increased to \$37 million from \$35.1 million resulting from an increase in membership numbers of 870 and the 3% increase in the combined general membership fee and county law library levy.

#### Professional Development & Competence

The major components of professional development and competence revenues ("PD&C") are the bar admission course ("BAC") and post-call education programs. PD&C revenues declined by \$535,000 primarily because of changes in the content and delivery of post-call products. BAC tuition fees of \$4,400 per student have remained unchanged since 2001, and total fees in 2005 were consistent with 2004.

#### Investment income

Investment income decreased to \$3.5 million in 2005 from \$3.8 million in 2004. Rates of return were similar between the years. Investment income surplus to the needs of the Errors and Omissions Insurance Fund, and transferred to the General Fund, decreased from \$3 million in 2004 to \$2.5 million in 2005.

#### Other revenues

Other revenues include a variety of items such as lawyer referral service fees, Ontario Reports royalties, catering revenues, litigation and enforcement cost recoveries, charges for fee payment plans and other miscellaneous revenues. Other revenues decreased \$200,000 from 2004.

#### Expenses

#### Professional Development & Competence

Professional Development & Competence expenses decreased by \$1 million from \$17 million in 2004 for two main reasons. Major educational administration systems redesign work, in anticipation of the new licensing process, was completed in 2004. Also, declining enrolment in post-call product offerings resulted in overall course costs decreasing in 2005.

#### Professional Regulation

Professional Regulation expenses increased from \$10 million in 2004 to \$12 million in 2005.

The regulatory division is in the midst of a number of large and complex mortgage fraud investigations. The division added five employees in 2005 to address this complex issue and these investigations continue to consume resources – the 2006 operating budget allocated another \$300,000 to directly address these types of investigations.

The other significant incremental expense in 2005 was the increase in litigation costs.

#### Other expenses

Other expenses include bencher related disbursements, payments to the Federation of Law Societies of Canada and CANLII, insurance and audit fees, catering costs, payments to CDLPA, OBAP, Pro Bono Law Ontario, severance payments and other miscellaneous expenses of the Society. Other expenses of \$6 million have increased from \$5.1 million in 2004.

#### RESTRICTED FUNDS

#### Capital Allocation Fund

The Capital Allocation Fund is the funding source for projects approved in the Society's capital budget. The fund is replenished on an annual basis by a portion of the members' fees dedicated to capital financing. In 2005 and 2004 this fee was \$75 per member. Prior to 2004, surplus funds from the Unrestricted Fund were transferred to the Capital Allocation Fund for the purpose of funding the renovation of the north wing of Osgoode Hall. In 2005, the renovation was substantially completed contributing to the reduction in the Capital Allocation Fund of \$6.6 million.

#### Invested in Capital Assets Fund

Expenditures capitalized and reported as capital assets are maintained in the Invested in Capital Assets Fund. This fund captures the asset additions, disposals and amortization of the Society's capital assets. In 2005, largely as a result of the renovation of the north wing of Osgoode Hall, the fund has increased by \$7 million. The Fund also contains the book value of the Ottawa building reported on the Balance Sheet as capital assets held for resale.

#### County Libraries

In 2005, the \$6.2 million in County Library expense is the amount of funding transferred to Library Co from the Society to fund county law libraries.

#### Repayable Allowance

In 2005, the Law Society's Repayable Allowance program provided \$213,000 to 66 students. \$285,000 was loaned to 85 students in 2004.

#### Endowments

The Society administers the J. Shirley Denison Endowment Fund, which was established to provide relief and assistance to members, students and former members. During the year \$57,000 was paid to 14 eligible applicants.

#### Special Projects

The Special Projects Fund was created to provide funding for projects that were approved and undertaken in the year and not completed prior to the end of the fiscal period. The majority of the expenditures in the fund for 2005 were related to the costs of the referendum on bencher remuneration.

#### Working Capital Reserve

The Working Capital Reserve of \$7.9 million is unchanged from 2004 and is funded in compliance with Convocation's policy.



# Auditors' Report

#### TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA,

We have audited the balance sheet of THE LAW SOCIETY OF UPPER CANADA – GENERAL FUND as at December 31, 2005 and the statements of revenues and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the General Fund as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario February 10, 2006

Bal	ance	Sheet	t
Lui	unce	CHECK	-

Stated in thousands of dollars		
As at December 31	2005	2004
ASSETS		
Current Assets		
Cash and short-term investments	15,933	22,222
Accounts receivable (note 3)	2,088	1,825
Prepaid expenses	291	155
Total current assets	18,312	24,202
Portfolio investments (note 4)	10,512	10,109
Capital assets held for resale (note 5)	2,085	- ,
Capital assets (note 6)	23,061	18,121
Total Assets	53,970	52,432
LIABILITIES AND FUND BALANCES Current Liabilities		
Accounts payable and accrued liabilities	9,297	7,691
Deferred revenue	7,226	6,966
Total current liabilities	16,523	14,657
Unclaimed trust funds (note 7)	1,266	1,028
Total Liabilities	17,789	15,685
FUND BALANCES		
Unrestricted fund	1,046	1,595
Restricted funds		
Capital allocation	1,622	8,232
Invested in capital assets	25,146	18,121
County libraries	(53)	37
Repayable allowance	46	147
Endowments	294	466
Special projects	105	174
Working capital reserve	7,975	7,975
Total Fund Balances	36,181	36,747
Total Liabilities and Fund Balances	53,970	52,432

See accompanying notes

On behalf of Convocation

Gavin Mar Kenzie

Treasurer

Chair of Finance and Audit Committee



# Statement of Revenues and Expenses

Stated in thousands of dollars

Stated in thousands of dollars		2005			200/	
Year ended December 31		2005		**	2004	
	Unrestricted Fund	Restricted Funds	Total	Unrestricted Fund	Restricted Funds	Total
REVENUES						
Membership fees	28,659	8,390	37,049	27,252	7,884	35,136
Professional development						
and competence	11,625	_	11,625	12,160	_	12,160
Investment income	3,531	9	3,540	3,788	10	3,798
Other (note 9)	4,886	119	5,005	5,014	191	5,205
Total revenues	48,701	8,518	57,219	48,214	8,085	56,299
EXPENSES						
Professional development						
and competence	16,050	_	16,050	17,018	_	17,018
Professional regulation	11,990	_	11,990	9,991	_	9,991
Administrative	6,324	_	6,324	6,419	_	6,419
Other (note 10)	6,084	_	6,084	5,096	-	5,096
Client service centre	3,860	_	3,860	3,933	_	3,933
Facilities	3,277	_	3,277	3,053	_	3,053
Policy and legal services	2,009	-	2,009	2,118	-	2,118
Communications	1,342	_	1,342	1,467	-	1,467
Equity	750		750	657	-	657
Tribunals	579	-	579	513	_	513
Capital allocation fund	_	802	802	_	615	615
Invested in capital assets						
<ul><li>amortization</li></ul>	-	1,899	1,899	_	1,613	1,613
County libraries fund	_	6,240	6,240	_	5,903	5,903
Repayable allowance fund	_	213	213	_	285	285
Endowments	_	183	183	_	42	42
Special projects fund	_	114	114		201	201
Total expenses	52,265	9,451	61,716	50,265	8,659	58,924
Less: Expenses allocated to Lawyers Fund for Client						
Compensation (note 1)	(3,931)	_	(3,931)	(3,866)	_	(3,866)
Net expenses	48,334	9,451	57,785	46,399	8,659	55,058
Surplus (deficit)	367	(933)	566	1,815	(574)	1,241

# Statement of Changes in Fund Balances

Stated in thousands of dollars

Year ended December 31						2005					2004
	_				R	ESTRICTED FU	INDS				
-	Unrestricted Fund	Capital Allocation	Invested in Capital Assets	County Libraries	Repayable Allowance	Endowments	Special Projects	Working Capital Reserve	Total Restricted Funds	Total	Total
Fund balances,											
beginning of year	1,595	8,232	18,121	37	147	466	174	7,975	35,152	36,747	35,506
Revenues	48,701	2,316	_	6,150	12	11	29	-	8,518	57,219	56,299
Expenses	48,334	802	1,899	6,240	213	183	114	_	9,451	57,785	55,058
(Deficit) surplus	367	1,514	(1,899)	(90)	(201)	(172)	(85)	_	(933)	(566)	1,241
Interfund transfers Asset capitalization	_	(8,924)	8,924	_	_	_	_	_	_	_	_
Transfer to capital allocation	(800)	800	_	_	_	_	-	-	800	_	
Transfer to special projects Transfer to repayable	(16)	-	-	-	-	-	16	-	16	-	_
allowances	(100)	_	_	_	100	_	_		100	_	
Total interfund transfers	(916)	(8,124)	8,924	_	100	_	16	_	916	_	
Fund balances, end of year	1,046	1,622	25,146	(53)	46	294	105	7,975	35,135	36,181	36,747



# Statement of Cash Flows

Stated in thousands of dollars		
Year ended December 31	2005	2004
OPERATING ACTIVITIES		
General fund (deficit) surplus	(566)	1,241
Item not affecting cash:	(300)	1,241
Amortization of capital assets	1,899	1,613
Other operating sources (uses) of cash:		-,5
Accounts receivable	(263)	(604)
Prepaid expenses	(136)	154
Accounts payable and accrued liabilities	1,606	970
Deferred revenue	260	5,182
Fund contribution - unclaimed trusts	238	299
Cash from operating activities	3,038	8,855
INVESTING ACTIVITIES		
Portfolio investments (net)	(403)	(10,109)
Capital asset additions	(8,924)	(2,769)
Cash used in investing activities	(9,327)	(12,878)
Net decrease in cash and short-term investments		
during the year	(6,289)	(4,023)
Cash and short-term investments, beginning of year	22,222	26,245
Cash and short-term investments, end of year	15,933	22,222

# 2005 FINANCIAL STATEMENTS

#### Notes to Financial Statements

Stated in whole dollars except where indicated For the year ended December 31, 2005

#### 1. Description of Fund

The Law Society of Upper Canada (the "Society") was founded in 1797 and incorporated in 1822 with the enactment of the *Law Society Act*. The Society exists to govern the legal profession in the public interest. This is achieved by ensuring that the people of Ontario are served by lawyers who meet high standards of learning, competence and professional conduct and by upholding the independence, integrity and honour of the legal profession, for the purpose of advancing the cause of justice and the rule of law. The governing body of the Society, which is known as Convocation, carries out this mandate.

The Society is not subject to income or capital taxes because it is a not-for-profit corporation. These financial statements represent the financial position and operations of the Law Society of Upper Canada – General Fund, which includes certain internally restricted funds, and do not purport to represent all assets and liabilities under the control of the Society.

Separate financial statements have been prepared for the following related entities, which have not been consolidated into the General Fund statements:

#### Lawyers Fund for Client Compensation

The Society maintains the Lawyers Fund for Client Compensation ("Compensation Fund") pursuant to section 51 of the *Law Society Act* to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was or is a trustee. Members' annual fees and investment income finance the Compensation Fund. The Compensation Fund reports fees collected by the General Fund as revenues. The Compensation Fund reimburses the General Fund for certain administrative expenses, spot audit expense and a portion of the costs of operating the investigation and discipline functions of the Society. In 2005 these amounted to \$3,931,000 (2004 – \$3,866,000).

#### Errors & Omissions Insurance Fund and Lawyers' Professional Indemnity Company

The Society provides professional liability insurance to the legal profession through the Errors and Omissions Insurance Fund ("E&O Fund") and the Lawyers' Professional Indemnity Company ("LAWPRO"). The E&O Fund was originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investment. LAWPRO took over underwriting the program commencing in 1990. LAWPRO, a wholly owned subsidiary of the Society, was incorporated in 1990 and is licensed to provide lawyer's professional liability and title insurance. On an annual basis the E&O Fund provides the General Fund with income derived from its surplus earnings. This income, reported as Investment Income of the General Fund, amounted in 2005 to \$2,500,000 (2004 – \$3,000,000). LAWPRO paid \$102,000 (2004 – \$197,000) primarily for shared information systems and government relations services.



#### Library Co Inc.

LibraryCo Inc., a wholly owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines and standards for the delivery of county law library services across Ontario and to administer funding on behalf of the Society. LibraryCo Inc. was incorporated under the Business Corporations Act of Ontario in 2001. The Corporation issued 100 voting Common Shares to the Society for \$100 and 100 Special Shares to the County and District Law President's Association for \$100. The holders of the Special Shares are entitled to elect one director.

The Society levies and collects funds for County and District Law Library purposes and transfers these funds to LibraryCo Inc.. Convocation internally restricts these funds for use by county law libraries to carry out their annual operations and any special projects approved by Convocation.

#### Law Society Foundation

The Law Society Foundation ("LSF"), a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to law students in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, maintain a collection of gifts of books and other written material for use by educational institutions in Canada, to receive donations and to maintain a fund for the relief of poverty by providing meals to persons in need. The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF.

#### The Law Foundation of Ontario

The Law Foundation of Ontario ("LFO"), a corporation without share capital established in 1974, was created to receive interest accruing on monies held in lawyers' mixed trust accounts and to establish and maintain a fund to be used for the purposes of legal education and legal research, legal aid and the establishment, maintenance and operation of law libraries. During 2005, the LFO contributed \$1,495,000 to the General Fund of the Society (2004 – \$1,300,000) for the operation of the Bar Admission Course and \$100,000 (2004 – \$100,000) for legal heritage programs.

## 2. Significant Accounting Policies

#### Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants using the restricted fund method of reporting revenues.

#### Description of funds

The *Unrestricted Fund* accounts for the Society's program delivery and administrative activities. This fund reports unrestricted resources.

#### Restricted Funds

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society's capital assets. These include buildings and major equipment including computers. Amounts of assets capitalized, according to the Society's capital asset policy, are transferred to the Invested in Capital Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. As at December 31, 2005 the balance is \$1,622,000 (2004 – \$8,232,000).

The *Invested in Capital Assets Fund* records transactions related to the Society's capital assets, specifically acquisitions, amortization and disposals. As at December 31, 2005 the balance is \$25,146,000 (2004 – \$18,121,000).

The County Libraries Fund records transactions related to the Society's support of county law libraries. The fund accumulates levies raised by the Society for county library purposes. The Society remits amounts to LibraryCo Inc. on a predetermined basis as approved by Convocation. At December 31, 2005 the fund deficit is \$53,000 (2004 surplus – \$37,000).

The *Repayable Allowance Fund* provides students with funding for tuition and living expenses and is based on a student's ability to repay the grant within a specified period of time following the student's non-participation in the Bar Admission Course. At December 31, 2005, the balance is \$46,000 (2004 – \$147,000).

At the end of the year, the *Endowment Funds* were comprised primarily of the J. Shirley Denison Fund which was established to provide relief and assistance to members and former members who find themselves in difficult financial circumstances. During the year, all of the significant assets of the Law Society Trusts totalling \$117,000, previously included in the Endowment Funds were transferred to the Law Society Foundation. Contributions for endowments are recognised as revenue in the Endowment Funds. At December 31, 2005, the Endowment Funds balances total \$294,000 (2004 – \$466,000).

The *Special Projects Fund* is maintained to ensure that financing is available for ongoing special projects. The balance at December 31, 2005 is \$105,000 (2004 – \$174,000).

The Working Capital Reserve is maintained to ensure adequate cash reserves for the continuous financing of the Society's operations. This fund balance is sufficient to provide for the Society's operating expenses for up to two months. As at December 31, 2005 the balance is \$7,975,000 (2004 – \$7,975,000).

#### Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society's investment policy and are subject to insignificant risk of a change in value. Investment income, except income earned on resources held for endowment, is retained in and reported by the Unrestricted Fund.

#### Portfolio investments

Portfolio investments are recorded at cost, net of amortization of premiums and discounts. Investments consist of a diversified portfolio of government bonds, corporate bonds and Canadian and U.S. equities, according to the Society's investment policy. Only if a loss in the value of an investment is other than a temporary decline is the investment written down to recognize the loss.

#### Capital assets

Assets are capitalized and subject to amortization when they are determined to have a minimum useful life of three years and an acquisition cost of \$10,000 for equipment, furniture and computer equipment, \$25,000 for computer software and \$25,000 for building improvements. Capital assets are presented at cost net of accumulated amortization. For purposes of calculating the first year's amortization, all capital assets are deemed to be acquired, put into service, or completed on July 1st. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings 30 years
Building improvements 10 years
Furniture, equipment and computer hardware and software 3 to 5 years



#### Revenue recognition

Membership fees are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Professional development and competence, investment and other revenues are recognized when receivable if the amount can be reasonably estimated and collection is reasonably assured.

#### Collections

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items.

#### Volunteer services

Appointed benchers are remunerated by the Province. Elected and ex-officio benchers are only eligible for remuneration after contributing 26 days of voluntary time. The work of the Society is also dependent on other voluntary services by members of the profession. No value has been included in these financial statements for gratuitous services.

#### Financial instruments

The estimated fair values of short-term investments, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and deferred revenue approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

#### Measurement uncertainty

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### 3. Accounts Receivable

Included in accounts receivable are certain amounts receivable from related parties as follows:

	2005	2004
Lawyers Fund for Client Compensation	332,000	278,000
The Law Society Foundation	26,000	_
The Law Foundation of Ontario	543,000	390,000
Lawyers' Professional Indemnity Company	92,000	93,000

#### 4. Portfolio Investments

(\$000's)	20	005	20	004
	Book	Market	Book	Market
	Value	Value	Value	Value
Debt Securities	8,423	8,316	8,335	8,233
Common Shares	2,089	2,081	1,774	1,755
	10,512	10,397	10,109	9,988

#### 5. Capital Assets Held For Resale

Due to developments in the provision of education services, the Society has significantly reduced its operations in Ottawa. The building owned in Ottawa is now vacant; it was placed on the market for sale in July 2005 and classified as capital assets held for resale. The property is shown at its carrying value. A significant profit or loss on the carrying value of the property is not expected.

#### 6. Capital Assets

000's)		2005 Accumulated		2004
	Cost	Amortization	Net	Net
Land and buildings	25,395	16,665	8,730	11,293
Building improvements	7,438	3,027	4,411	4,727
Building improvements				
under construction	8,560	_	8,560	1,289
Furniture, equipment and				
computer hardware and software	4,687	3,327	1,360	812
	46,080	23,019	23,061	18,121

In 2004 construction commenced on the renovation of Osgoode Hall's north wing. Renovations are expected to be completed in 2006 at a total cost of \$9,710,000, funded from balances accumulated in the Capital Allocation Fund. Expenditures relating to this renovation are categorized as building improvements under construction. These assets will not be depreciated until the renovation is complete.

#### 7. Unclaimed Trust Funds

Section 59.6 of the *Law Society Act* permits a member who has held money in trust for or on account of a person for a period of at least two years to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the Act which enable the Society to recover its expenses associated with maintaining these funds, all net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$1,266,000 (2004 – \$1,028,000).

#### 8. Other Trust Funds

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2005 total funds held in trust amounts to \$2,269,000 (2004 – \$2,286,000).



#### 9. Other Revenue

Included in other revenue is income from the Ontario Reports, catering, the Lawyer Referral Service, specialist certification and other miscellaneous revenues.

#### 10. Other Expenses

Included in other expenses are payments to the Federation of Law Societies, County and District Law Presidents' Association, insurance, professional fees, termination payments, catering, other corporate expenses and governance related disbursements. 2005 was the first year that elected and ex-officio benchers were eligible for remuneration. The total remuneration of elected and ex-officio benchers during the year was \$134,000. The Treasurer's honorarium for the year was \$103,000 (2004 – \$93,000). The total value of Bencher expenses reimbursed was \$509,000 (2004 – \$526,000).

#### 11. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. Law Society employees can choose matching employee and employer contributions between 1% and 6% of annual earnings with the exception of designated employees for whom the Society contributes 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's General Fund pension expense in 2005 amounted to \$1,287,000 (2004 – \$1,180,000).

#### 12. Commitments

The Society is committed to monthly lease payments for property under leases having various terms up to April 2010. Aggregate minimum monthly payments over the next years are as follows:

Year	\$000's	
2006	518	
2007	535	
2008	558	
2009	575	
2010	194	
Total	2,380	

At December 31, 2005 contractual obligations relating to the renovation of Osgoode Hall's north wing totalled \$681,000 (2004 – \$5,223,000).

## 13. Contingent Liabilities

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Management is of the opinion that based on the information presently available, it is unlikely that any liability, to the extent not covered by insurance or inclusion in the financial statements, would be material to the Society's financial position.

In the normal course of business the Society has entered into agreements that meet the definition of a guarantee, including indemnities in favour of third parties, such as confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. Under the terms of these agreements, the Society agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

The Society has also provided indemnification to all directors and officers of the Society. Under s.9 of The Law Society Act:

"No action or other proceedings for damages shall be instituted against the Treasurer or any bencher, official of the Society or person appointed in Convocation for any act done in good faith in the performance or intended performance of any duty or in the exercise or in the intended exercise of any power under this Act, a regulation, a by-law or a rule of practice and procedure, or for any neglect or default in the performance or exercise in good faith of any such duty or power."

Notwithstanding s.9, the Society has also purchased errors and omissions insurance for past and present officers, employees, committee members, benchers, agents and volunteers acting on behalf of the Society, its subsidiaries and affiliates, to mitigate the cost of any potential suit or action.

No estimate of the maximum exposure under these indemnifications can be made and historically the Society has not made any significant payments under such or similar indemnification agreements. Therefore no amount has been accrued in the financial statements with respect to these agreements.

## 15. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

# Lawyers Fund for Client Compensation



## Management Discussion and Analysis

The Lawyers Fund for Client Compensation ("the Fund") is maintained by the Law Society, in accordance with the *Law Society Act*, to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was or is a trustee. The Fund is financed by members' annual fees and investment income.

For the first time in five years, the Fund experienced significant claims with the net grants expense increasing from \$1.1 million in 2004 to \$4.6 million. This led to a deficit for the year of \$1.6 million compared to a surplus in 2004 of \$2.1 million and a consequent reduction in the Fund's year-end balance from \$19.5 million to \$17.9 million.

#### BALANCE SHEET

#### Cash and short-term investments

The Fund's short-term investments are invested in bankers' acceptances, Government of Canada Treasury bills and cash.

#### Portfolio investments

Portfolio, or long-term investments (\$22.6 million compared to \$21.2 million in 2004), included fixed income (82%) and equities (18%). Fixed income investments comprise a diversified mix of government, provincial and corporate bonds. Equity investments comprise a diversified mix of equities listed on the major U.S. and Canadian stock exchanges. The market value of the portfolio is \$23.3 million.

#### Reserve for unpaid grants

Based upon an actuarial valuation, the reserve for unpaid grants has increased by \$1.7 million to \$10.7 million.

# STATEMENT OF REVENUES AND EXPENSES AND CHANGE IN FUND BALANCE

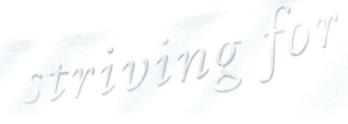
#### Revenues

#### Membership fees

Total membership fees decreased from \$6.6 million in 2004 to \$5.9 million in 2005 as per-member fees declined from \$230 in 2004 to \$200 in 2005.

#### Investment income

Investment income has increased to \$1.6 million in 2005 from \$1.5 million in 2004 as a result of a higher rate of return on the long-term portfolio that included net realized gains of \$573,000. The total return on the Fund's portfolio investments was 7.2% in 2005 compared to 6.6% in 2004.



#### Expenses

#### Net grants expense

Along with the increase in the actuarial reserve, grants paid during the year increased from \$2.0 million in 2004 to \$3.3 million. These developments are primarily due to multiple claims against one member.

#### Spot Audit

There are approximately 1,000 spot audits conducted each year. Costs per audit have only increased 1% since 2002, and at \$1.9 million, total costs of the program declined nominally from 2004.

#### Insurance

As a result of the strong position of the Fund at the end of 2004, insurance coverage was not renewed for 2005, resulting in the saving of \$495,000 from 2004.

#### Administrative, share of investigations and discipline and salaries and benefits

These expenses include expenses allocated from the Law Society's General Fund employing a formula as part of the Society's full cost allocation of administrative overheads. Theses expenses have increased slightly over 2004 consistent with the increase in the Society's overall spending.



## Auditors' Report

#### TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA,

We have audited the balance sheet of THE LAW SOCIETY OF UPPER CANADA – LAWYERS FUND FOR CLIENT COMPENSATION as at December 31, 2005 and the statements of revenues and expenses and change in fund balance and of cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario February 10, 2006 Balance Sheet

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Stated in thousands of dollars		
As at December 31	2005	2004
ASSETS		
Current Assets		
Cash and short-term investments	6,232	7,688
Interest and other receivables	166	117
Total Current Assets	6,398	7,805
Portfolio investments (note 4)	22,571	21,234
Total Assets	28,969	29,039
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities (note 5)	356	468
Reserve for unpaid grants	10,678	9,040
Total Liabilities	11,034	9,508
Fund Balance	17,935	19,531
Total Liabilities and Fund Balance	28,969	29,039

See accompanying notes

On behalf of Convocation

Gavin Markenzie

Treasurer

Chair of Finance and Audit Committee



# Statement of Revenues and Expenses and Change in Fund Balance

Stated in thousands of dollars		
Year ended December 31	2005	2004
REVENUES		
Membership fees	5,971	6,667
Investment income	1,574	1,485
Total revenues	7,545	8,152
EXPENSES		
Grants paid	3,272	2,010
Increase (decrease) in reserve for unpaid grants	1,638	(814)
Recoveries	(308)	(87)
Net grants expense	4,602	1,109
Spot audit	1,957	1,987
Share of investigation and discipline	1,051	987
Administrative	1,085	1,052
Insurance	_	495
Salaries and benefits	446	428
Total expenses	9,141	6,058
(Deficit) surplus	(1,596)	2,094
Fund balance, beginning of year	19,531	17,437
Fund balance, end of year	17,935	19,531

Statement of Cash Flows

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Stated in thousands of dollars	2005	200/
Year ended December 31	2005	2004
OPERATING ACTIVITIES		
(Deficit) surplus	(1,596)	2,094
Item not affecting cash:		
Increase (decrease) in reserve for unpaid grants	1,638	(814)
Other operating sources (uses) of cash:		
Interest and other receivables	(49)	49
Accounts payable and accrued liabilities	(112)	(458)
Total operating activities	(119)	871
INVESTING ACTIVITY		
Portfolio investments (net)	(1,337)	(1,405)

(1,456)

7,688

6,232

(534)

8,222

7,688

See accompanying notes

investments during the year

Cash and short-term investments, beginning of year

Cash and short-term investments, end of year



#### Notes to Financial Statements

Stated in whole dollars except where indicated For the year ended December 31, 2005

#### 1. Description of Fund

The Lawyers Fund for Client Compensation (the "Fund") is maintained by The Law Society of Upper Canada (the "Society") pursuant to section 51 of the *Law Society Act* to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was or is a trustee. The Fund is financed by members' annual fees and investment income.

The Fund is not subject to income or capital taxes because it is a fund of the Society, a not-for-profit corporation.

The Fund reimburses the Society's General Fund for certain administrative expenses, spot audit expenses and a portion of the costs of operating the investigation and discipline functions of the Society. The charges for the year amount to \$3,931,000 (2004 – \$3,866,000).

### 2. Significant Accounting Policies

#### Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants, using the restricted fund method of reporting revenues. The Fund accounts for the program delivery, administration and payment of grants from the Fund. The Fund is restricted in use by the *Law Society Act*.

#### Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society's investment policy and are subject to an insignificant risk of change in value.

#### Portfolio investments

Portfolio investments are recorded at cost, net of amortization of premiums and discounts. Investments consist of a diversified portfolio of government bonds, corporate bonds and Canadian and U.S. equities, according to the Society's investment policy. Only if a loss in the value of an investment is other than a temporary decline is the investment written down to recognize the loss.

#### Revenue recognition

Membership fees are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Investment income is recognized when receivable if the amount can be reasonably estimated.

#### Grants

Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Fund is at the discretion of Convocation, the governing body of the Society. Grants paid are subject to a \$100,000 limit per applicant. A reserve for unpaid grants is recorded as a liability on the balance sheet. This reserve represents an estimate of the present value of grants to be paid for unprocessed claims and the associated administrative costs, as determined by an actuary. The related net grants expense represents grant payments during the year plus the current year experience gain/loss of the reserve for unpaid grants, net of recoveries. In 2004, the Fund maintained insurance for cumulative claims in excess of \$15,000,000 to a maximum of \$25,000,000. This insurance was discontinued for the 2005 year.

#### Financial instruments

The estimated fair values of short-term investments, interest and other receivables and accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

#### 3. Measurement Uncertainty

The valuation of unpaid grants anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimations and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates. No provision has been made for otherwise unforeseen changes to the legal or economic environment in which claims are settled, nor for causes of loss which are not already reflected in the historical data. Management believes that the techniques employed and assumptions made are appropriate and the conclusions reached are reasonable given the information currently available. Estimates of unpaid grants are reviewed at least annually by an actuary and, as adjustments become necessary, they are reflected in current operations.

#### 4. Portfolio Investments

	20	2005		04
(\$000's)	<b>Book Value</b>	Market Value	Book Value	Market Value
Debt Securities	18,426	18,964	17,587	17,788
Common Shares	4,145	4,378	3,647	3,904
	22,571	23,342	21,234	21,692

### 5. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is an amount due to the Society's General Fund of \$332,000 (2004 - \$278,000).

# Errors and Omissions Insurance Fund



# Management Discussion and Analysis

#### COMBINED BALANCE SHEET

#### Investments

Investment assets, inclusive of cash and cash equivalents, increased by \$43.2 million to \$406.4 million at December 31, 2005. The increase in investments represents assets held to meet insurance claims obligations, with the balance representing surplus funds generated in the year. Investment assets are managed in accordance with investment policy in a diversified, high quality portfolio of fixed income securities (88%) and equities (12%).

Provision for unpaid claims and adjustment expenses and reinsurers' share of provision

The provision for unpaid claims represents the amount required to satisfy all of the Errors and Omission Insurance Fund's obligations to claimants prior to recoveries from reinsurers. This has increased by \$4.3 million. Reinsurance recoveries have declined by \$18.0 million and accordingly the net increase in the provision is \$22.3 million. Much of this growth arises from the changes in reinsurance arrangements made since 2002. The percentage ceded under quota share reinsurance in respect of the Ontario mandatory professional liability insurance program declined from 57% in 1995 to nil effective January 1, 2003.

#### Surplus

The surplus has increased by \$8 million, the excess of revenue over expenses for the year.

#### COMBINED STATEMENT OF REVENUE AND EXPENSES AND SURPLUS

In 2005, the Errors and Omissions Insurance Fund generated an excess of revenue over expenses of \$8 million, a decrease of \$2.8 million from 2004. Total expenses increased by \$4.2 million in 2005 to \$95.3 million and revenues increased by \$1.4 million to \$103.3 million.

#### Members' levies

Members' levies, representing insurance premiums under the Society's mandatory professional liability insurance program, were \$68 million, similar to 2004. The base annual levy for the Ontario professional liability program was increased by \$125 per member to \$2,625 in 2005. No premium subsidies were drawn from the premium stabilization fund in 2005, consistent with 2004.

#### Other insurance premiums

Other insurance premiums decreased to \$9.4 million from \$11.3 million in 2005 primarily as a result of the decision to cease the underwriting of the insurance program of the Law Society of Newfoundland effective January 1, 2005.

#### Investment income

Investment income of \$22.7 million recorded in the combined financial statements represents an increase of \$2.9 million from the prior year, which includes net capital gains of \$6.6 million (2004 – \$5.1 million) realized on the disposition of assets. Typically, over 85% of the investment portfolio consists of debt securities. At December 31, 2005, the market value of the portfolio exceeded book value by almost \$13.5 million (2004 – \$13.1 million).

#### Net claims and adjustment expenses

Overall, incurred claims are consistent with the prior year. Favorable development of prior years' claims in the amount of \$9.4 million offset the claims incurred in respect of the current year.

#### Reinsurance premiums

The reduction in costs of reinsurance is primarily due to the lack of the need for any reinsurance on the Law Society of Newfoundland's insurance program, following the decision to cease underwriting this program effective January 1, 2005.

#### General expenses

The increase in general expenses of \$0.6 million over 2004 is primarily attributable to increased compensation and benefits related costs.



## Auditors' Report

#### TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA

We have audited the combined balance sheet of THE LAW SOCIETY OF UPPER CANADA – ERRORS AND OMISSIONS INSURANCE FUND as at December 31, 2005 and the combined statements of revenue and expenses and surplus and of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & rouche hAP

Chartered Accountants

Toronto, Ontario January 30, 2006

# 2005 FINANCIAL STATEMENTS

# Report of the Valuation Actuary

#### TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA

#### ROLE OF THE VALUATION ACTUARY

The valuation actuary is appointed by the Audit Committee of the Lawyers' Professional Indemnity Company in its capacity as manager of the Law Society of Upper Canada Errors and Omissions Insurance Fund. With respect to the preparation of these combined financial statements, the actuary is required to carry out a valuation of the claim liabilities and to report thereon to the Audit Committee, and through it to the membership of the Law Society. The valuation is carried out in accordance with accepted actuarial practice, and regulatory requirements. The scope of the valuation encompasses the claim liabilities, that is the provision for unpaid claims and adjustment expenses on claims incurred and reported as of December 31, 2005, the date of these combined financial statements.

In performing a valuation of the liabilities, which by their very nature are inherently variable, the actuary makes assumptions as to future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Errors and Omissions Insurance Fund, the Lawyers' Professional Indemnity Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates; consequently the final values may vary significantly from those estimates. The actuary also makes use of management information provided by the Law Society and the Lawyers' Professional Indemnity Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

#### VALUATION ACTUARY'S REPORT

I have valued the claim liabilities arising on the errors and omissions insurance coverage arranged by the Law Society of Upper Canada for its Errors and Omissions Insurance Fund combined balance sheet as at December 31, 2005, and their changes in its combined statement of revenue and expenses and surplus for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the claim liabilities makes appropriate provision for all such obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario January 30, 2006

Brian G. Pelly

Fellow, Canadian Institute of Actuaries



## Combined Balance Sheet

Stated in thousands of dollars		
As at December 31	2005	2004
ASSETS		
Cash and cash equivalents	2,648	32,289
Investments (note 3)	403,832	330,942
Investment income due and accrued	3,634	2,287
Accounts receivable	8,450	14,967
Reinsurers' share of provision for unpaid claims		
and adjustment expenses (note 5)	79,860	97,906
Other receivables	1,063	928
Other assets	307	386
Capital assets (note 4)	589	729
Income taxes recoverable	_	3,224
Future income taxes (note 10)	6,177	5,495
Total assets	506,560	489,153
LIABILITIES AND SURPLUS		
Provision for unpaid claims and adjustment expenses (note 5)	326,348	322,042
Premium stabilization fund (note 7)	32,529	25,502
Accounts payable and accrued liabilities	5,920	7,805
	364,797	355,349
Surplus (note 11)	141,763	133,804
Total liabilities and surplus	506,560	489,153

See accompanying notes

On behalf of Convocation:

Gavin Mar Kenzie

Treasurer

Chair of Finance and Audit Committee

# Combined Statement of Revenue and Expenses and Surplus

Stated in thousands of dollars		
Year ended December 31	2005	2004
REVENUE		
Insurance premiums, mandatory insurance program (notes 2 and 6)	68,012	68,071
Other insurance premiums	9,376	11,271
Reinsurance commissions	3,205	2,803
Investment and other income	22,679	19,758
Total revenue	103,272	101,903
EXPENSES		
Net claims and adjustment expenses (note 5)	68,728	64,532
Reinsurance premiums	4,632	5,304
General expenses	13,571	12,945
Transfer to the Society's General Fund (note 8)	2,500	3,000
Premium taxes	2,325	2,405
Income taxes (note 10)	3,557	2,966
Total expenses	95,313	91,152
Excess of revenue over expenses	7,959	10,751
Surplus, beginning of year	133,804	123,053
Surplus, end of year	141,763	133,804



# Combined Statement of Cash Flows

Stated in thousands of dollars		
Year ended December 31	2005	2004
OPERATING ACTIVITIES		
Net income	7,959	10,751
Items not affecting cash:		***
Future income taxes	(682)	(1,265)
Amortization of capital assets	469	684
Realized gains	(6,549)	(5,147)
Amortization of premiums and discounts on bonds	(447)	436
	750	5,459
Changes in non-cash balances:		
Investment income due and accrued	(1,347)	252
Accounts receivable and other receivables	9,606	(3,315)
Provision for unpaid claims and adjustment expenses	4,306	10,011
Reinsurers' share of provisions	18,046	13,203
Premium Stabilization Fund	7,027	5,071
Other assets	79	(66)
Accounts payable and accrued liabilities	(1,885)	(887)
Net cash inflow from operating activities	36,582	29,728
INVESTING ACTIVITIES		
Purchase of capital assets	(329)	(337)
Purchases of investments	(217,997)	(280,289)
Proceeds of sale of investments	152,103	273,310
Net cash outflow from investing activities	(66,223)	(7,316)
(Decrease)/increase in cash and cash equivalents during the year	(29,641)	22,412
Cash and cash equivalents, beginning of year	32,289	9,877
Cash and cash equivalents, end of year	2,648	32,289
Cash and cash equivalents at the end of year consists of:		
Cash	1,504	7,145
Cash equivalents	1,144	25,144
	2,648	32,289

# 2005 FINANCIAL STATEMENTS

## Notes to Combined Financial Statements

Stated in whole dollars except where indicated As at December 31, 2005

#### 1. The Insurance Program and its Risk Retention and Reinsurance Structure

The combined financial statements of the Errors and Omissions Insurance Fund ("the Combined Fund") primarily account for the net results of the professional liability insurance program of the Law Society of Upper Canada ("the Society"). The program requires practising members to pay levies that contribute towards premiums to fund the anticipated costs of professional liability claims made in each annual policy period. Indemnification of members is subject to the terms of the insurance policy, including financial limits per claim and aggregate limits per member in each policy period.

These financial statements combine the results of operations, financial positions and cash flows of:

- the Errors and Omissions Insurance Fund of the Society ("the Fund"), the fund originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investments; and
- · Lawyers' Professional Indemnity Company ("LAWPRO" or "the Company"), a wholly owned subsidiary of the Society that was incorporated in 1990 as an insurance company and is licensed to provide professional liability insurance to lawyers and title insurance.

The risk retention and reinsurance structures employed through these two entities are described in the following paragraphs.

Prior to July 1, 1990, the Society's Errors and Omissions Insurance Program was underwritten by various insurance carriers subject to a policy deductible. LAWPRO took over the underwriting of the program commencing July 1, 1990. The Society maintained financial responsibility for the policy deductible through to December 31, 1994. The policy deductible was a combination of a group deductible and the individual member deductibles. For the periods noted below, the combined policy deductibles were as follows:

July 1989 to June 1990	\$ 250,000	per occurrence
July 1990 to December 1991	\$ 200,000	per occurrence
January 1992 to December 1994	\$ 250,000	per occurrence

The Society was not able to arrange Stop Loss reinsurance on its group deductible after the policy period ending June 1989. As a result, the full financial risk of the deductible rested with the Society, from July of 1989 through the policy period ended December 1994.

LAWPRO also had a net retention above the policy's group deductible as follows:

- July 1, 1990 to December 31, 1991: LAWPRO is liable for \$50,000 of all individual losses in excess of \$200,000;
- January 1, 1992 to December 31, 1992: LAWPRO is liable for an aggregate of \$2,500,000 from individual losses incurred in excess of \$250,000 plus a further 10% of all losses above \$250,000 once the initial \$2,500,000 limit has been reached; and
- January 1, 1993 to December 31, 1994: LAWPRO is liable in each policy year for an aggregate of \$4,000,000 if incurred losses are above or exceed \$250,000 plus a further 10% of all losses in excess of \$250,000 once the initial \$4,000,000 limit has been reached.

It was decided, effective January 1, 1995, to eliminate the self-insured group deductible. Commencing January 1, 1995, 100% of the risk over the individual member deductibles is insured within LAWPRO. LAWPRO in turn reinsures a portion of its risk retention with third party Canadian licensed reinsurers.



The policy limits for the period January 1, 2005 through December 31, 2005 are \$1 million per claim and \$2 million per member in aggregate.

#### 2. Significant Accounting Policies

These combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

#### Insurance premiums and other premium related balances

The insurance policy in respect of the Society and its members under the Society's mandatory professional liability insurance program is effective on a calendar year basis. In addition, members may also opt for additional annual coverage under the Excess professional liability insurance policies offered by LAWPRO. Professional liability insurance premium income is earned on a pro rata basis over the term of coverage of the underlying insurance policies; generally one year, except for policies for retired lawyers, which have terms of up to five years. The portion of premiums related to the unexpired term of coverage at the balance sheet date is recorded as unearned premiums within accounts payable and accrued liabilities in the balance sheet.

Title insurance premiums are earned at the inception date of policies.

Premiums receivable are recorded under accounts receivable in the balance sheet, net of any required provision for doubtful amounts. Premiums received from insureds in advance of the effective date of the insurance policy are recorded under accounts payables and accrued liabilities in the balance sheet.

LawPRO defers policy acquisition costs, primarily premium taxes on its written professional liability insurance premiums, to the extent these costs are considered recoverable. These costs are expensed on the same basis that the related premiums are earned. The method to determine recoverability of deferred policy acquisition costs takes into consideration future claims and adjustment expenses to be incurred as premiums are earned and anticipated investment income. Deferred policy acquisition costs are not considered material at year-end.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments with maturities of three months or less at the time of acquisition. The fair value of cash and cash equivalents approximates the amounts shown in the financial statements.

#### Investments

Investments in debt securities are carried at amortized cost with premiums and discounts on the par value of the securities amortized on a straight-line basis over the term to maturity. Investments in common and preferred shares are carried at cost. Realized gains and losses on investments are calculated using the carrying value of securities sold.

Investment income includes interest and dividends earned, amortization of premiums and discounts on debt securities and realized gains and losses. Any loss in value of an investment, which is considered other than temporary in nature, is also recognized in income.

#### Capital assets

Capital assets of LAWPRO are carried at amortized cost. Amortization is charged to expense on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements

Furniture and equipment

Computer equipment and software

Term of lease
3 to 5 years
1 to 3 years

#### Other income

Other income is miscellaneous income other than premium income or investment income and is recognized when it is earned.

#### Claims related balances

#### a) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses is based on an estimate of the ultimate cost of all insurance claims as at the balance sheet date and is determined using case-basis evaluations and an amount for the expected future development of claims incurred as at the balance sheet date. The provision takes into account the time value of money.

#### b) Deductibles

The professional liability insurance policy requires insureds to pay deductibles to the maximum extent of \$25,000 each on individual claims. Expected deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts at the same time as the related claim liability.

#### Reinsurance

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers in the statement of income. Amounts relating to reinsurance in respect of the premiums and claims related balances in the balance sheet are recorded separately. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Fund's and LAWPRO's method of determining the related policy liability associated with the reinsurance policy.

#### Employee future benefits

LAWPRO maintains a defined contribution pension plan for its employees as well as a supplemental defined benefit pension plan for certain designated employees that provides benefits to those employees in excess of the benefits provided by LAWPRO's defined contribution pension plan. The benefit liability under the supplemental defined benefit pension plan is actuarially determined using the projected benefit method pro-rated on service and LAWPRO management's assumptions about discount rates, expected plan assets' performance, salary growth and retirement ages of employees. The discount rate is determined on the basis of market conditions at year end and other assumptions are based on long term expectations.

Adjustments for plan amendments, changes in assumptions and actuarial gains and losses are recognized fully into income in the year to which they relate.

#### Income taxes

LAWPRO uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized, where those tax rates and laws have been substantively enacted.

#### Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates and changes in estimates are recorded in the year in which they are determined. The most significant assets and liabilities that require estimation in their determination are the provision for unpaid claims and adjustments and reinsurers' share thereof (note 5).



#### 3. Investments

The Fund and LAWPRO hold a diversified portfolio consisting of equities and fixed income debt securities with investment grades of "BBB" or better.

Estimated fair values and unrealized gains and losses

The carrying value, estimated fair values and unrealized gains (losses) on investments at December 31 were as follows:

2005 (\$000's)

	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Debt Securities	355,933	6,838	(489)	362,282
Common Shares	45,300	8,462	(1,448)	52,314
Preferred Shares	2,599	129	_	2,728
	403,832	15,429	(1,937)	417,324
		2004 (	\$000's)	
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Debt Securities	292,211	6,590	(29)	298,772
Common Shares	36,132	7,255	(863)	42,524
Preferred Shares	2,599	154	_	2,753
	330,942	13,999	(892)	344,049

The effective yield on debt securities as at December 31, 2005 is 4.14% (2004 – 4.50%)

The estimated fair values of debt securities, common and preferred shares are based on quoted market values.

#### Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 2005 is as follows:

Within	1 to 5	Over	Book	
1 Year	Years	5 Years	Value	
35,997	201,057	118,879	355,933	
10%	57%	33%		
	1 Year 35,997	1 Year Years 35,997 201,057	1 Year Years 5 Years 35,997 201,057 118,879	1 Year Years 5 Years Value 35,997 201,057 118,879 355,933

The weighted average duration of debt securities at December 31, 2005 is 4.81 years (2004 – 4.09 years). A portion of these debt securities are invested in a manner that substantially matches their duration to the expected duration over which the provision for claims and adjustment expenses is payable in future. Shares have no specific maturities.

/	$\circ$ . 1	A
4.	Capital	Assets

	2005			2004	
(\$000's)	Cost	Accumulated Amortization	Carrying Value	Carrying Value	
Furniture & Fixtures	1,151	(1,081)	70	99	
Computer equipment	2,342	(2,068)	274	281	
Computer software	2,214	(2,038)	176	244	
Leasehold improvement	933	(864)	69	105	
Total	6,640	(6,051)	589	729	

## 5. Provision for Unpaid Claims and Adjustment Expenses

The determination of the provision of unpaid claims and adjustment expenses is a complex process based on known facts, interpretations and judgment and is influenced by a variety of factors. Consequently, the measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid claims and adjustment expenses and any related recoveries for reinsurance and deductibles, involves estimates and measurement uncertainty. The amounts are based on estimates of future trends in claims severity and other factors, which could vary as claims are settled.

Variability can be caused by several factors including the emergence of additional information on claims, changes in judicial interpretation and significant changes in severity or frequency of claims from historical trends. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. An actuary performs a valuation of claim liabilities at least annually. As adjustments to estimated claim liabilities become necessary, they are reflected in current operations.

To limit losses through the spreading of risks, the Fund and LawPRO have ceded reinsurance to other insurers. In the event that a reinsurer is unable to meet obligations assumed under the respective reinsurance agreements, the Fund and LawPRO are respectively liable for such amounts. LawPRO has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. Based on current information of the financial health of the reinsurers, no provision for doubtful debts has been made in the financial statements in respect of reinsurers.



Changes in provisions for unpaid claims and adjustment expenses recorded in the balance sheet comprise the following:

	<b>2005</b> (\$000's)	2004 (\$000's)
Provision for unpaid claims and adjustment expenses – beginning of year – net	224,136	200,922
Change in provision for claims and adjustment expenses:		
Prior years	(9,391)	(10,971)
Current year	78,333	77,575
Claims and adjustment expenses paid in relation to:		
Prior years	(40,722)	(36,787)
Current year	(5,796)	(5,279)
Impact of discounting	(72)	(1,324)
Provision for unpaid claims and adjustment expenses – end of year – net	246,488	224,136
Reinsurers' share of provisions for unpaid claims and adjustment expenses	79,860	97,906
Provision for unpaid claims and adjustment expenses – end of year – gross	326,348	322,042

As the provision for unpaid claims and adjustment expenses is recorded on a discounted basis and reflects the time value of money, its carrying value is expected to provide a reasonable basis for the determination of fair value. However, determination of fair value also requires the practical context of a buyer and seller, both of whom are willing and able to enter into an arm's length transaction.

# 6. Members' Levies, Mandatory Professional Liability Insurance Program

Members' levies relating to the mandatory professional liability insurance program contribute towards insurance premiums and are composed of annual base levies of \$2,625 per member (2004 – \$2,500) and additional levies that are charged based on a member's claims history, status, and on the volume of specified categories of legal transactions. In 2005, additional levies contributing towards insurance premiums totalled \$25 million (2004 – \$26.4 million). Insurance premiums relating to the mandatory professional liability insurance program are presented net of any retrospective premium rating adjustment under the insurance policy between the Society and LAWPRO.

#### 7. Premium Stabilization Fund

Revenues from transaction based levies are subject to change from year to year based on levels of legal transactions that, in part, reflect the changing economic climate. Any revenues from transaction and claims history levies that are in excess of premium levels agreed upon for the year, are held for future insurance purposes and applied as premiums under the insurance program in future years. Should a shortfall in these levies be experienced, the resulting potential deficiency in premiums is addressed by additional contributions from the Premium Stabilization Fund. There were no premium contributions from the Premium Stabilization Fund in 2005 and 2004.

As a result of the retrospective premium rating adjustments under the insurance policy between the Society and LAWPRO, LAWPRO returned \$7 million to the Premium Stabilization Fund (2004 – \$5.1 million).

# 8. Transfer to the Society's General Fund

Investment income attributable to the Fund of \$2.5 million (2004 – \$3.0 million), was determined to be in excess of the operating requirements of the insurance program and was transferred to the Society for general purposes.

## 9. Employee Future Benefits

LAWPRO has a defined contribution pension plan that is available to all its employees upon meeting the eligibility requirements. Each employee is required to contribute 4.5% of yearly maximum pensionable earnings and 6% in excess thereof, of an employee's annual base earnings. Under the plan, LAWPRO matches all employee contributions. LAWPRO made payments of \$385,000 in 2005 (2004 – \$345,000) and recorded pension expenses of \$394,000 (2004 – \$353,000).

LAWPRO also has a supplemental defined benefit pension plan. Funding for the supplemental plan commenced in 2005. Funding requirements are reviewed annually with an actuarial valuation for funding purposes effective as at December 31. The most recent actuarial valuation for funding purposes was at an effective date of December 31, 2004. For reporting purposes, all assets and liabilities associated with pension benefits have been measured using values as at December 31, 2005.

#### Defined benefit plan obligations

	2005 (\$000's)	2004 (\$000's)
Accrued benefit obligations	(\$0000)	(ψοσο 3)
Balance, beginning of year	1,264	697
Current service cost	110	103
Interest cost	79	69
Actuarial loss	252	140
Plan amendments	_	255
Balance, end of year	1,705	1,264
Defined benefit plan assets		
	2005	2004
	(\$000's)	(\$000's)
Fair value of plan assets		
Market value of plan assets – beginning of year	-	_
Actual return on plan assets, net of expenses	8	_
Employer contribution	636	_
Market value of plan assets – end of year	644	-

The defined benefit plan assets arise primarily from employer contributions that are originally allocated equally between deposits held with the Government of Canada and investments in the units of a balanced pooled fund, representing a portfolio mix of equities and debt securities.



Reconciliation of funded status surplus (deficit) of the benefit plans to the amounts recorded in the financial statements:

	2005 (\$000's)	2004
		(\$000's)
Fair value of plan assets	644	_
Accrued benefit obligation	(1,705)	(1,264)
Funded status deficit	(1,061)	(1,264)
Unamortized net actuarial loss	259	-
Accrued benefit liability	(802)	(1,264)

The accrued benefit liability is included in accounts payable and accrued liabilities in the combined balance sheet.

Components of defined benefit costs recognized in the year:

	2005	2004
	(\$000's)	(\$000's)
Current service cost	110	103
Interest cost	79	69
Actual return on assets	(8)	_
Actuarial losses	252	140
Past service costs	_	255
Difference between actual and recognized actuarial losses	(252)	_
Difference between actual and expected return on assets	(8)	_
Defined benefit costs recognized in the statement of income	e 173	567

The significant assumptions used by LAWPRO are as follows (weighted average):

	2005	2004
Discount rate	5.00%	5.75%
Expected long term rate of return on plan assets	6.00%	6.00%
Rate of compensation increase	3.50%	3.50%
Estimated average remaining service life	11.0 years	12.0 years

#### 10. Income Taxes

LAWPRO's effective tax rate does not differ significantly from the applicable Canadian statutory income tax rate of 36.12%. LAWPRO's income tax expense has the following components:

	2005 (\$000's)	2004 (\$000's)
Current tax expense	4,239	4,231
Future tax (recovery)	(682)	(1,265)
Total income tax expense	3,557	2,966

LAWPRO's future income tax asset is the result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these temporary differences and the tax effects for each year are as follows:

	2005	2004
	(\$000's)	(\$000's)
Investments	1,376	987
Actuarial liabilities	4,371	3,940
Other	430	568
Total	6,177	5,495

During the year LAWPRO made payments of \$4.2 million to and received refunds of \$3.2 million from tax authorities.

## 11. Surplus

The Surplus of the Combined Fund includes LAWPRO's shareholder's equity. At December 31, 2005 the shareholder's equity of LAWPRO, as reported in its financial statements, was \$109.6 million (2004 - \$102.2 million).

## 12. Operating Lease Rentals

LAWPRO is committed to monthly lease payments in respect of the premises from which it operates. The lease expires on January 31, 2008. Lease payment obligations are as follows:

2006	\$1,362,000
2007	\$1,362,000
2008	\$ 114,000

#### 13. Fair Value Disclosure

The fair value of the financial assets and liabilities other than investments (note 3) and the provision for unpaid claims and adjustment expenses (note 5) approximates their carrying value.

# 14. Comparative Information

Certain comparative amounts have been reclassified to conform to the current year's financial statement presentation.

# LibraryCo Inc.



# Management Discussion and Analysis

Library Co Inc. is mandated to carry on the central management of the Ontario County and District Law Library system on a not-for-profit basis in accordance with objectives of the Blended System framework for the purpose of developing and enhancing skills for the competent lawyer in Ontario.

#### STATEMENT OF REVENUES AND EXPENSES

The overall excess of expenses over revenues, or deficit, at \$313,000 in 2005 (2004 – \$301,000) is less than the amount budgeted. In both years, the annual deficits were part of the budget plans to use LibraryCo's Reserve Fund as a source of revenue.

#### Revenues

The \$7.2 million total revenues in 2005 consisted of grants of \$6.2 million (2004 – \$5.9 million) from the Law Society of Upper Canada and \$984,000 (2004 - \$850,000) from the Law Foundation of Ontario. The 2005 County Library levy collected by the Law Society was \$206 per member (2004 – \$197).

The Law Foundation of Ontario grant finances the purchase of electronic products and this year's funding also included funding for a new project called the Virtual Reference Service, which will permit real time, online reference services, employing software based on internet chat technology.

#### Expenses

Expenses required for the operation of the 48 County and District Law Libraries made up \$7.1 million of the \$7.5 million total expenses (2004 – \$6.7 million out of a total of \$7.1 million). These expenses were primarily for collections – traditional and electronic, the Virtual Reference Service, personnel and operations. The increase in expenses reflects the rising costs of legal publishing and staffing. LibraryCo continues to balance the demand for electronic and other materials from the various libraries and to provide education in the use of these materials.

In 2005, \$425,000 (2004 - \$374,000) was spent on head office operations, the Roving Law Librarian, travel to libraries, administration of the library system and funding the work carried out by LibraryCo's Integration Task Force.

#### BALANCE SHEET

There were no significant changes in balance sheet values during the year. The decrease in the cash and short-term investments reflects the use of the Reserve Fund to cover the year's deficit as budgeted. The Reserve fund of \$1.1 million (2004 – \$1.4 million) is restricted for County and District Law Library purposes as approved by the Board of Directors.

# 2005 FINANCIAL STATEMENTS

# Auditors' Report

#### TO THE SHAREHOLDERS OF LIBRARYCO INC .:

We have audited the balance sheet of LIBRARYCO INC. as at December 31, 2005 and the statements of revenue and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario January 24, 2006



# Balance Sheet

Stated in dollars		
As at December 31	2005	2004
CURRENT ASSETS		
Cash and short-term investments	1,110,103	1,373,689
Prepaid expenses	14,464	16,072
Goods and Services Tax receivable	4,525	16,993
	1,129,092	1,406,754
CAPITAL ASSETS (note 3)	11,324	16,514
Total Assets	1,140,416	1,423,268
HARM TELES SHARE CARTELY AND EVIND DAY INCRE		
LIABILITIES, SHARE CAPITAL, AND FUND BALANCES		/-/
Accounts payable and accrued liabilities	57,800	27,656
SHARE CAPITAL AND FUND BALANCES		
	200	200
Share capital (note 4)	200 430	200 (13,419)
Share capital <i>(note 4)</i> General fund		
Share capital <i>(note 4)</i> General fund Invested in capital assets fund	430	(13,419)
SHARE CAPITAL AND FUND BALANCES Share capital (note 4) General fund Invested in capital assets fund Reserve fund Total Share Capital and Fund Balances	430 11,324	(13,419) 16,514

See accompanying notes

On behalf of the Board of Directors

Gavin Mar Kenzie

Chair - Board of Directors

Chair - Finance Committee

Statement of Revenues and Expenses		
Stated in dollars		
For the year ended December 31	2005	2004
REVENUES		
Law Society of Upper Canada grant	6,240,000	5,902,515
Law Foundation of Ontario grant	984,395	850,000
Interest income	16,345	20,418
Total revenues	7,240,740	6,772,933
EXPENSES		
Head office/administration		
Salaries and benefits	209,977	193,699
Office and occupancy	86,510	68,212
Professional fees	80,471	53,975
Other (note 5)	48,080	58,562
Total head office/administration expenses	425,038	374,448
County and District Law Libraries – centralized purchases		
Electronic products and services	1,433,816	1,224,373
Insurance and group benefits	257,657	225,903
Other (note 6)	169,325	213,071
Virtual Reference Service	134,395	_
	1,995,193	1,663,347
County and District Law Libraries – grants (note 7)	5,060,087	4,915,678
Capital and special needs grants	73,418	120,063
Total County and District Law Libraries expenses	7,128,698	6,699,088
Total expenses	7,553,736	7,073,536
Excess of expenses over revenue for the year	(312,996)	(300,603)

See accompanying notes



# Statement of Changes in Fund Balances

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For the year ended December 31	2005				2004	
	Invested in					
	General Fund	Capital Assets Fund	Reserve Fund	Total	Total	
Balance, beginning of year Excess of (expenses over revenue)	(13,419)	16,514	1,392,317	1,395,412	1,696,015	
revenue over expenses	(324,151)	(5,190)	16,345	(312,996)	(300,603)	
Inter-fund transfer	338,000	_	(338,000)	, –	_	
	430	11,324	1,070,662	1,082,416	1,395,412	

See accompanying notes

# Statement of Cash Flows

Stated in dollars		
For the year ended December 31	2005	2004
Net (outflow) inflow of cash related to the following activities:		
OPERATING ACTIVITIES		
Excess of expenses over revenue	(312,996)	(300,603)
Item not affecting cash:		
Amortization of capital assets	5,190	6,736
Net change in non-cash operating working capital items:		
Prepaid expenses	1,608	2,706
Goods and Services Tax receivable	12,468	20,457
Accounts payable and accrued liabilities	30,144	(6,972)
Total operating activities	(263,586)	(277,676)
FINANCING AND INVESTING ACTIVITIES		
Purchase of capital assets	_	(1,293)
Decrease in cash	(263,586)	(278,969)
Cash and short-term investments, beginning of year	1,373,689	1,652,658
Cash and short-term investments, end of year	1,110,103	1,373,689

See accompanying notes



#### Notes to Financial Statements

Stated in whole dollars except where indicated For the year ended December 31, 2005

#### 1. General

LibraryCo Inc. (the "organization") was incorporated on April 12, 2001 under the Ontario Business Corporations Act as a not-for-profit organization. The Law Society of Upper Canada holds all common shares of the organization and the County and District Law Presidents' Association holds all special shares.

The purpose of the organization is to administer funding from the members of the Law Society of Upper Canada and develop policies, priorities, guidelines and standards for the delivery of county law library services across Ontario including the distribution of funds to the various County and District Law Libraries.

As a not-for-profit organization, LibraryCo Inc. is not subject to federal and provincial income and capital taxes.

### 2. Significant Accounting Policies

### Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for non-profit organizations published by the Canadian Institute of Chartered Accountants, using the restricted fund method of reporting contributions.

The General Fund accounts for the delivery, management and administration of library services. The Reserve Fund is restricted for specific purposes as periodically determined and approved by the Board of Directors. The Invested in Capital Assets Fund records the capital assets of the organization.

#### Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the organization's investment policy. Investment income, except income earned on General Fund resources, is retained in and reported by the Reserve Fund.

#### Capital assets

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a declining balance basis as follows:

Furniture and fixtures 20% Computer equipment 30%

Leasehold improvements Straight-line over term of lease

In the year of acquisition, half the normal amortization is provided.

Computer software is expensed in the year of acquisition.

# EINANCIAI CTATEMENTS

#### Revenue recognition

Restricted contributions related to the general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

#### Collections

The organization owns a collection of traditional, and electronic based, legal research and reference material. The cost of additions to the collection is expensed as incurred.

#### Financial instruments

The estimated fair value of cash and short-term investments, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

#### Measurement uncertainty

The preparation of the financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# 3. Capital Assets

	2005			2004	
	Cost	Accumulated amortization	Net	Net	
Furniture and fixtures	\$16,563	\$ 10,604	\$ 5,959	\$ 7,448	
Computer equipment	20,630	16,158	4,472	6,388	
Leasehold improvements	8,927	8,034	893	2,678	
	\$46,120	\$34,796	\$11,324	\$16,514	



# 4. Share Capital

#### Authorized

Unlimited number of Common shares

Unlimited number of Special shares, with right to elect one director

Issued	2005	2004
100 Common shares	\$100	\$100
100 Special shares	100	100
	\$200	\$200

At incorporation, the organization issued 100 Common shares to the Law Society of Upper Canada and 100 Special shares to the County and District Law Presidents' Association for cash consideration of \$100 each.

# 5. Other Expenses - Head Office/Administration

Included in this expense are costs associated with staff travel, Board of Directors' meetings and other miscellaneous items.

6. Other Expenses – County and District Law Libraries – centralized purchases Included in this expense are costs associated with publications, cataloguing, committee meetings and other miscellaneous items.

# 7. County and District Law Library Grants

These grants represent the quarterly distribution of funds to the 48 County and District Law Libraries. They are distributed in accordance with policies and procedures as established by the organization's Board of Directors.

In order to satisfy themselves as to the proper use of these funds, management has undertaken the following procedures:

Periodic visits by the organization's staff to the individual libraries to review financial information, assess collections, and determine services being provided;

Submission of annual budgets by each individual library and review of these budgets by the organization's staff;

Submission of periodic financial information by each individual library and review of this information by the organization's staff;

Annual conference with the organization's staff and staff of all individual libraries.

The following individual library grants were distributed by the organization during 2005 and 2004:

	2005	2004
Algoma District Law Association	\$ 109,414	\$ 104,952
Brant Law Association	70,168	67,404
Bruce Law Association	52,246	50,012
County of Carleton Law Association	534,270	536,160
Cochrane Law Association	40,709	38,960
Dufferin Law Association	45,277	43,428
Durham County Law Association	109,441	101,992
Elgin Law Association	62,122	59,584
Essex Law Association	225,125	212,788
Frontenac Law Association	122,542	117,952
Grey Law Association	54,182	51,892
Haldimand Law Association	24,253	23,256
Halton Law Association	107,790	103,592
Hamilton Law Association	352,527	333,906
Hastings Law Association	69,735	66,956
Huron Law Association	61,179	58,688
Kenora Law Association	71,899	69,012
Kent Law Association	58,323	55,912
Lambton County Law Association	52,049	48,811
County of Lanark Law Association	21,746	36,292
Leeds & Grenville Law Association	55,807	53,456
Lennox & Addington Law Association	22,815	21,892
Lincoln Law Association	137,119	129,807
Manitoulin Law Association	6,180	6,000
Middlesex Law Association	282,385	271,532
Muskoka Law Association	40,796	39,108
Nipissing Law Association	66,736	63,920
Norfolk Law Association	57,761	55,480
Northumberland County Law Association	57,839	55,464
Oxford Law Association	61,020	58,536
Parry Sound Law Association	25,205	24,180
Peel Law Association	198,691	217,425
County of Perth Law Association	53,687	51,452
Peterborough Law Association	91,259	86,274
Prescott & Russell Law Association	4,983	11,439
Rainy River Law Association	23,216	22,280
Renfrew County Law Association	96,375	90,612
County of Simcoe Law Association	115,009	120,596
Stormont, Dundas & Glengarry Law Association	61,725	59,112
Sudbury District Law Association	128,264	123,060
Temiskaming Law Association	41,843	40,144
Thunder Bay Law Association	130,037	124,944
Toronto Lawyers Association	486,301	467,388
Victoria Haliburton Law Association	68,522	65,800
Waterloo Law Association	196,682	188,992
Welland Law Association	73,451	70,700
Wellington Law Association	63,114	62,020
York Region Law Association	168,268	152,516
	\$5,060,087	\$4,915,678



In addition to the above noted grant provided to the Peel Law Association, funding of \$32,459 was provided to this Association to assist in covering costs associated with a "one-time" staffing matter. This amount is included in capital and special needs grants on the Statement of Revenues and Expenses.

# 8. Related Party Transactions

2005

2004

Purchases from the Law Society of Upper Canada

\$ 94,254

\$ 96,831

Included in purchases from the Law Society of Upper Canada are costs associated with cataloguing of collections, CLE and Bar Admission materials for the County & District Law Libraries, other publications and catering for Board of Directors' meetings.

#### 9. Lease Commitments

The organization has entered into a lease arrangement for its offices. The lease expires July 31, 2006 and requires annual payments of \$13,200 plus operating costs.

# 10. Contingencies and Guarantees

In the normal course of business, the organization enters into agreements that meet the definition of a guarantee. The organization's primary guarantees are as follows:

- (a) Indemnity has been provided to all directors and/or officers of the organization for various items including, but not limited to, all costs to settle suits or actions due to their involvement with the organization, subject to certain restrictions. The organization has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the organization. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) In the normal course of business, the organization has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, engagement letters with advisors and consultants, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the organization to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the organization from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the organization has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the financial statements with respect to these agreements.

# 11. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.



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